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Viewing cable 07MANAGUA2539, NICARAGUA: ORTEGA PRESSURES EXXONMOBIL TO BUY

If you are new to these pages, please read an introduction on the [structure of a cable](#) as well as how to [discuss them](#) with others. See also the [FAQs](#)

Understanding cables

Every cable message consists of three parts:

- The top box shows each cable's unique reference number, when and by whom it originally was sent, and what its initial classification was.
- The middle box contains the header information that is associated with the cable. It includes information about the receiver(s) as well as a general subject.
- The bottom box presents the body of the cable. The opening can contain a more specific subject, references to other cables ([browse by origin](#) to find them) or additional comment. This is followed by the main contents of the cable: a summary, a collection of specific topics and a comment section.

To understand the justification used for the classification of each cable, please use this [WikiSource](#) article as reference.

Discussing cables

If you find meaningful or important information in a cable, please link directly to its unique reference number. Linking to a specific paragraph in the body of a cable is also possible by copying the appropriate link (to be found at the paragraph symbol). Please mark messages for social networking services like Twitter with the hash tags **#cablegate** and a hash containing the reference ID e.g.

#07MANAGUA2539.

Reference ID	Created	Released	Classification	Origin
07MANAGUA2539	2007-12-07 21:18	2011-08-30 01:44	CONFIDENTIAL	Embassy Managua

Appears in these articles:

<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758456.aspx>
<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758467.aspx>
<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758468.aspx>
<http://www.nacion.com/2011-05-30/Mundo/NotasSecundarias/Mundo2758464.aspx>
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<http://www.confidencial.com.ni/articulo/4102/estrada-y-la-ldquo-doble-cara-rdquo-ante-ee-uu>
<http://www.confidencial.com.ni/articulo/3966/la-ldquo-injerencia-rdquo-de-ee-uu-en-el-2006>
<http://www.nacion.com/2011-05-23/Mundo/Relacionados/Mundo2758764.aspx>
<http://www.nacion.com/2011-05-23/Mundo/NotaPrincipal/Mundo2758753.aspx>
<http://www.confidencial.com.ni/articulo/4041/millones-de-dolares-sin-control-y-a-discrecion>
<http://www.confidencial.com.ni/articulo/4040/la-ldquo-injerencia-rdquo-de-venezuela-en-2006>
<http://www.confidencial.com.ni/articulo/4047/rodrigo-barreto-enviado-de-ldquo-vacaciones-rdquo>
<http://www.nacion.com/2011-05-16/Mundo/NotasSecundarias/Mundo2757239.aspx>
<http://www.nacion.com/2011-05-16/Mundo/NotaPrincipal/Mundo2746658.aspx>
<http://www.nacion.com/2011-05-16/Mundo/Relacionados/Mundo2757244.aspx>
<http://www.nacion.com/2011-05-16/Mundo/Relacionados/Mundo2746673.aspx>
<http://www.confidencial.com.ni/articulo/3991/dra-yadira-centeno-desmiente-cable-diplomatico-eeuu>
<http://www.confidencial.com.ni/articulo/3968/pellas-pronostico-a-eeuu-victoria-de-ortega-en-2006>
<http://www.confidencial.com.ni/articulo/3967/barreto-era-ldquo-fuente-confiable-rdquo-para-eeuu>

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RR RUEHWEB

DE RUEHMU #2539/01 3412118
ZNY CCCCC ZZH
R 072118Z DEC 07
FM AMEMBASSY MANAGUA
TO RUEHC/SECSTATE WASHDC 1753
INFO RUEHZA/WHA CENTRAL AMERICAN COLLECTIVE
RUEHCV/AMEMBASSY CARACAS 1196
RHEBAAA/DEPT OF ENERGY WASHINGTON DC
RUCPDO/DEPT OF COMMERCE WASHINGTON DC
RUEATRS/DEPT OF TREASURY WASHINGTON DC
RHEHNSC/NSC WASHINGTON DC

C O N F I D E N T I A L MANAGUA 002539

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DEPT FOR EEB/ESC, EEB/BTA, WHA/EPSC, WHA/CEN/TLERSTEN
DEPT PLEASE PASS TO USTR AND OPIC

E.O. 12958: DECL: 12/06/2017
TAGS: [EPET](#) [ENRG](#) [EINV](#) [ETRD](#) [NU](#)
SUBJECT: NICARAGUA: ORTEGA PRESSURES EXXONMOBIL TO BUY
VENEZUELAN OIL

REF: A. MANAGUA 2116
[B](#). MANAGUA 2055
[C](#). MANAGUA 2016
[D](#). MANAGUA 1952

Classified By: Classified By: CDA Richard M. Sanders, Reason: E.O. 12958 1.4 (b) and (d)

[11](#). (C) President Ortega announced on December 5 that he had instructed the Ministry of Energy and Mines and others "to quickly work out a proposal to nationalize the importation of oil." Ortega wants Nicaragua to import all oil from Venezuela to take advantage of Hugo Chavez' offer to contribute half of the resulting revenues to the Bolivarian Alternative (ALBA) Development Bank and Fund. As operators of the country's only refinery, ExxonMobil supplies more than 70% of the country's liquid fuel needs, including fuel oil used to generate electricity. ExxonMobil further imports the majority of refined product (gasoline and diesel) to supplement refinery supply. ExxonMobil is willing to discuss a supply contract to import Venezuelan crude oil, but wants to sign the fuel storage and sales agreement first, as was agreed in a memorandum of understanding in September. Talks on crude oil imports are supposed to be in parallel with discussions on a laundry list of tax charges lodged against ExxonMobil by the Ortega administration. Recently, Ortega has publicly referred to "transnationals that import oil" as members of a "mafia," and castigated ExxonMobil for behaving like "true mercenaries (and) speculators" while "bleeding the Nicaraguan people." On December 6, Foreign Minister Samuel Santos called CDA Sanders to a meeting with Minister of Energy Emilio Rappaciolli and Petronic President Francisco Lopez, who gave their version of events.

Ortega Appoints Study Commission

[12](#). (SBU) President Ortega announced at the closing session of the fourth National Security and Defense course for the Ministry of Defense and the Military on December 5 that he had instructed the Ministry of Energy and Mines (MEM), Nicaraguan Institute of Energy (INE), National Electricity Company (ENEL), and Albanisa (a joint enterprise between Petronic and the Venezuelan national oil company PDVSA) "to quickly work out a proposal to nationalize the importation of oil." Ortega wants Nicaragua to import all oil from Venezuela to take full advantage of Hugo Chavez' offer to contribute half of all resulting revenues to the Bolivarian Alternative (ALBA) Development Bank and Fund.

ExxonMobil and Glencore Primary Importers

[13](#). (C) Currently, ExxonMobil (U.S.) and Glencore (Swiss) import almost all oil consumed in Nicaragua. As operators of the country's only refinery, ExxonMobil supplies more than 70% of the country's liquid fuel needs, including fuel oil used to generate electricity. ExxonMobil further imports the majority of refined product (gasoline and diesel). Glencore imports the rest under a contract with Petronic, the national oil company, that expires in 2009.

Ortega Administration Pressure

[14](#). (C) Both ExxonMobil and Glencore have been subject to intense pressure by the Ortega administration to import Venezuelan oil. In April 2007, the Ortega administration challenged the legitimacy of Glencore's 10-year contract. This resulted in Glencore importing essentially all of its refined product from Venezuela, i.e., about 4000 barrels per day. The Ortega administration then launched a host of questionable tax claims against DkuIQ\Mobil agreed to negotiate the use and eventual sale of the fuel storage facility that was seized. In each instance, once Glencore and ExxonMobil accommodated the Ortega administration, their near term legal challenges disappeared.

[15](#). (C) More is at stake with ExxonMobil than with Glencore

and the road has been bumpier. ExxonMobil tells us that it has negotiated an agreement for the use and sale of the Corinto fuel storage facility, but that the Ortega administration is refusing to sign. Instead, the administration is demanding to negotiate the sale of Venezuelan crude oil to ExxonMobil's refinery. ExxonMobil wants to sign the fuel storage and sales agreement first, according to the order of events set forth in September's memorandum of understanding. ExxonMobil also wants to make progress on the laundry list of tax charges that the Ortega Administration has initiated. (Refs A, B)

16. (C) In November 2007, FSLN stalwart and Economic Advisor to the President Bayardo Arce replaced Francisco Lopez (Petronic President and former FSLN Treasurer) as point person for negotiations with ExxonMobil. Arce appears to be charged with getting ExxonMobil to agree to buy Venezuelan crude, and is not above using heavy-handed pressure tactics. This may explain why in recent weeks Ortega has publicly referred to "transnationals that import oil" as members of a "mafia," and castigated ExxonMobil for behaving like "true mercenaries (and) speculators" while "bleeding the Nicaraguan people." Ortega also charged ExxonMobil with being "uncooperative" and "totally negative" to the idea of "contributing to the Nicaraguan people." "All this would change," said Ortega at the December 5th event noted above, "if this transnational would change its attitude, as it had during period 1979-90...." ExxonMobil is scheduled to meet with Bayardo Arce on December 7.

17. (C) In the meantime, ExxonMobil has informed us that, in fact, it is amenable to negotiating the importation of crude oil from Venezuela. In the past two months (business confidential information), ExxonMobil has come to terms

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internally with the idea that Venezuelan ships could be used for transport, provided supply contracts stipulate prompt delivery, late charges, some supply flexibility, and vessels used meet ExxonMobil's environmental and safety standards (i.e., double hulled tankers). This is because the company would rather not pay demurrage to Venezuelan ports while waiting for an unreliable PDVSA to load product.

CDA Meets with Key Administration Players

18. (C) On December 6, CDA was convoked to the Foreign Ministry to meet with Foreign Minister Samuel Santos, who was accompanied by Energy Minister Emilio Rappacchioli and Petronic President Francisco Lopez. Santos led off by saying that the meeting was being held at the instruction of President Ortega, and that he, Santos, wanted to make sure the USG -- and especially the Secretary and WHA A/S Shannon -- for whom he had high regard, had a "concrete" understanding of the GON's situation with regard to ExxonMobil's operations in Nicaragua. He noted the enormous problem which high energy prices present for Nicaragua and asserted that the GON had made "enormous efforts" to reach an agreement with ExxonMobil.

19. (C) Santos soon handed the meeting over to Rappacchioli, who briefly recounted his version of the events of the summer-fall of 2006 in which ExxonMobil's unused storage facility had been seized and used to store a shipment of Venezuelan gasoline which entered Nicaragua. The crisis provoked by this act had been resolved with the signature of a joint memorandum that returned the plant to ExxonMobil, but which contemplated the import of Venezuelan crude into ExxonMobil's refinery in Nicaragua, "parallel" to the negotiation of arrangements for the rental or eventual sale of the gasoline storage facility. The GON had since been trying to reach a commercial agreement setting forth terms which would actually the Venezuelan crude oil to enter Nicaragua, without success. The inability of the GON and ExxonMobil to reach an agreement was highly prejudicial to Nicaragua, which was unable to take full advantage of the favorable terms which Venezuela offered for its crude through "Albanisa" a joint Venezuelan-Nicaraguan oil-importation entity.

110. (C) Petronic President Lopez further elaborated, saying that Venezuela offered Nicaragua up to 27,000 barrels per day, but until now Nicaragua has only been able to import 4,000 barrels a day (in the form of refined products) brought

in for Petronic by Glencore. As a result, Nicaragua had lost \$230 million in savings from unused Venezuelan concessional funding. Lopez noted the great expense the GON is facing in subsidizing mass transit, and the crisis that the electrical power sector is facing. Lopez said that ExxonMobil had been offered extremely attractive terms on price, volumes, and payment schedules, and would be allowed to use its own ships (vice those of Venezuela state oil enterprise PDVSA). In the current circumstances, getting Venezuelan crude oil into Nicaragua was a matter of "national security."

111. (C) Lopez suggested that the U.S. embassy consider taking part in future negotiations to assure a successful conclusion. Santos finished off the GON's presentation by handing CDA a copy of a memo, dated December 4, from Lopez to the head of the Nicaraguan Energy Institute (the GON's energy regulatory authority) entitled "Documentary Recapitulation of Efforts at Agreements with Esso." Santos also said that as a "personal, not official" opinion, he wondered if ExxonMobilHQY4k1Q which was far better than taking impressions from the press. Their views would be transmitted to Washington immediately. That said, however, he added that public remarks by President Ortega calling for "nationalization" inevitably provoked concern in Washington. He assured Santos that the USG had no hidden agenda and would

be happy to see the GON and ExxonMobil reach agreement. While he could not offer any analysis of why the two parties have not yet reached an agreement; he understood that ExxonMobil was also looking for resolution of the GON's claims of large amounts of back taxes due from the company which were presented at the time of the earlier seizure of the gasoline storage facility. (Rappaccioli responded that he had heard that the Mayor of Managua had stated that claims for local taxes had been resolved; however, GON economic advisor Bayardo Arce had said that Exxonmobil had not presented needed invoices for taxes due to the central government for review). As to the idea of embassy intervention in the negotiations, CDA noted that at stake were complex commercial matters that seemed best left to the parties directly involved.

Comment

¶13. (C) Comment: Santos seemed most interested in doing damage control following Ortega's use of the term "nationalization," which dominated local headlines the day before. Rappaccioli and Lopez' spin-filled versions of the current state of play seemed aimed at getting the USG to pressure Exxonmobil to bring in the Venezuelan crude oil as soon as possible, under GON terms.

¶14. (C) The actions of the Ortega administration over the past 12 months provide compelling evidence of a lack of understanding of the oil sector, if not political incompetence. Readers may remember that during the 2006 elections, the FSLN created Albanica (now defunct and not to be confused with Albanisa) to import oil under a scheme with Venezuela that would allow FSLN mayors to derive profits. When a shipment of diesel finally arrived, Albanica scrambled to find tanker trucks to transport product to Managua, and then to distribute the product)- ostensibly to transport cooperatives and unions. After Ortega assumed power, Venezuelan President Hugo Chavez announced that PDVSA would build a \$2.5 billion refinery in Nicaragua. Several months later, Chavez laid a cornerstone at a chosen site, only to leave the project to a feasibility study that had not been initiated. Between July and November, the Ortega administration forced Glencore to provide storage and to distribute shipments of Venezuelan product. When Glencore ran short of storage capacity in August, the Ortega administration charged ExxonMobil with failure to pay taxes. An administrative oversight was used as the pretext for seizing the storage capacity from ExxonMobil in time to offload a Venezuelan vessel. When members of the National Assembly and the IMF demanded transparency and on-budget accounting of Venezuelan funds derived from oil sales, the Ortega administration created Albanisa, a "private entity"

composed of stated-owned enterprises PDVSA (Venezuela) and Petronic (Nicaragua), to manage Venezuela oil sales off-budget.

¶15. (C) While Albanisa may be capable of importing Venezuelan oil through paper transactions, someone must eventually pay for it. Without the sales and distribution networks of ExxonMobil and Glencore, Albanisa cannot generate ALBA funds from Venezuelan oil. We believe that Ortega's call to develop proposals to nationalize the importation of oil is the latest attempt to pressure ExxonMobil into monetizing Venezuelan oil. Before nationalizing the process, the Ortega administration will have to convince the National Assembly to revise legislation governing the sector. If a state-owned entity does the importing, then ALBA funds would be subject to National Assembly oversight, something that the Ortega Administration has been trying to avoid.

SANDERS